



To the Honorable Mayor and Members of City Council
City of Falls Church, Virginia

In planning and performing our audit of the basic financial statements of the City of Falls Church, Virginia as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit we became aware of several matters that are opportunities for strengthening the system of internal control and improving operating efficiency. The following comments are related procedural matters which can be implemented by City's staff. We have discussed these comments and suggestions with City's personnel, and we will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the information and use of the finance and audit committee, City Council, the School Board, management, and others within the City and is not intended to be and should not be used by anyone other than the specified parties.

Cherry, Bekaert & Holland, LLP

Vienna, Virginia
November 30, 2009

Management Letter Comments

City

- Bank reconciliations – We noted there was one month where the bank reconciliation for the OPEB account was prepared but not reviewed. In order to optimize the effectiveness of controls over cash, bank reconciliations should be prepared and reviewed on a timely basis. We recommend that bank reconciliations be prepared no more than 15 days after month end.
- Payroll- We noted that checks older than one year were still included in the payroll outstanding checklist. We recommend that an audit of the outstanding checklists be performed, and all checks older than 1 year be removed.
- Investment- We noted that we were originally provided with a schedule that did not agree to the trial balance as of 06/30/2009; however, it was approved and signed off on by management. In order to optimize the effectiveness of controls over investments, reconciliations that are incorrect and do not agree to the trial balance should not be approved.
- Intergovernmental- We noted that one inter-governmental remittance was not supported by a signed contract. To insure proper billing, we recommend that the City have signed agreements for all intergovernmental transactions.
- Abatement- We noted that one of our selected abatement was without proper support documentation. We recommend the City maintain proper support document for all abatement.
- Journal Entries – We noted that two of our selected journal entries did not have proper support documentation. We recommend that all journal entries need to have proper support documentation.

School Board

- Disbursements- There was one instance where the Accounts Payable personnel could not provided appropriate supporting documentation for our selected sample.

Communication of significant audit matters

We have audited the financial statements of the City of Falls Church for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. As required by auditing standards generally accepted in the United States of America (GAAS), we are providing you with the information shown below relative to the conduct of our audit. This report is intended solely for the information and use of the finance and audit committee, City Council, the School Board, management, and others within the organization and is not intended and should not be used by anyone other than these specified parties.

Our Responsibility under GAAS and OMB Circular A-133

As stated in our engagement letter, dated April 16, 2009, our responsibility, as described by GAAS, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements of the City of Falls Church are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Falls Church's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Falls Church's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Falls Church's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Falls Church's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Falls Church's compliance with those requirements.

Independence

We are familiar with Rule 101 of the AICPA's Code of Professional Conduct, and its interpretations and rulings, as well as the independence standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. As far as the City of Falls Church is concerned, our firm has been, for the period covered by the financial statements under report and thereafter to date, in fact independent as contemplated by such Rule.

Communication of Significant Audit Matters (continued):

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. Note 1 to the financial statements contains a summary of significant accounting policies. During the year ended June 30, 2009, no new significant accounting policies were adopted and the application of existing policies was not changed. We noted no transactions entered into by the City of Falls Church during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or any significant transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Significant Audit Adjustments

Three adjustments were proposed by us that could, in our judgment, either individually or in the aggregate, have a significant effect on the City of Falls Church's financial reporting process.

Summary of Audit Differences

There were no financial statement misstatements aggregated during our audit of the City of Falls Church's financial statements for the period ended June 30, 2009 that were not corrected by management.

Relationship with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

As a regular part of our audit we have requested and received certain representations from management that are included in the management representation letter dated November 24, 2009.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the City's financial statements and our report thereon does not extend beyond the financial information identified in our report and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's comprehensive annual financial report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Other Information – New Governmental Accounting Standards

As part of our normal audit process and as a value added service to you we would like to make you aware of some new reporting standards that will be required to be implemented in future years by the County. We would suggest that you review each of these new standards and determine what their impact will be on your organization.

GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are now effective for the current fiscal year ending June 30, 2010.

GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments.” Statement 53 is intended to improve how state and local governments report information about derivative instrument financial arrangements used by governments to manage specific risks or make investments in their financial statements. A common example would be an interest rate swap. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements at the entity-wide level (Statement of Net Assets and Statement of Activities), but not at the fund level. The guidance in this Statement also addresses hedge accounting requirements, and is now effective for the current fiscal year ending June 30, 2010.

GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement totally redesigns fund balance classifications for governmental funds. Fund balances that currently are classified as “reserved” or “unreserved”, will now be classified into nonspendable, restricted, committed, assigned or unassigned. These classifications are a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments will need to adopt accounting policies that address how fund balances are committed or assigned, and in what order fund balances amounts should be spent.

The statement also redefines governmental fund types for general, special revenue, capital project and debt service funds. Governments should pay particular attention to their special revenue funds, as it is possible that certain funds may no longer meet the definition.

The guidance in this Statement is not effective until the fiscal year ending June 30, 2011; however; we encourage local governments to become familiar with this statement as it may impact the budget process for fiscal year 2011.

If you have any questions or would like to have further discussions on any of the matters discussed above feel free to give us a call.